

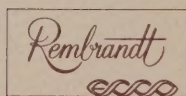
AR47



1976 Annual Report



Entrance to the new manufacturing and administration centre in Scarborough.



Rembrandt Jewelry Limited is a Canadian manufacturer of precious metal jewellery including more than 4,000 charms depicting events, special occasions, sports, cities and hobbies. The corporation also produces an extensive range of chains for necklets, pendants, and bracelets of karat gold, sterling silver and gold-filled metals from its new manufacturing centre in Scarborough, Ontario, Canada. Rembrandt also manufactures a complete line of "family" rings that use a patented Jewel-Set press, which allows the retailer to set birth stones on the premises.

Rembrandt sells its products to a network of major distributors who service some 4,000 jewellery outlets in Canada, representing more than 90 per cent of the country's independent jewellers.

The company also distributes its products to the United States, Great Britain, Australia, New Zealand, Japan, and the Caribbean Islands.

The corporation employs nearly 350 skilled and semi-skilled personnel, many of whom receive extensive on-the-job training. Rembrandt is proud of its long-standing policy of employing the physically handicapped.

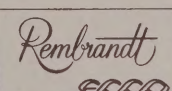
As a corporate citizen of its community, Rembrandt supports a variety of events such as the Miss Toronto Beauty Pageant in cooperation with the Metropolitan Toronto Police Amateur Athletic Association as well as participating in this year's Toronto Olympiad, which brought together handicapped persons from around the world to compete in sports events.

Highlights



| | 1976 | 1975 |
|-------------------------------------|--------------|--------------|
| Consolidated Sales. | \$10,388,040 | \$10,600,836 |
| Net Earnings for the year | 576,765 | 1,378,974 |
| Net Earnings per share. | \$0.573 | \$1.37 |
| Working Capital. | \$ 2,612,883 | \$ 3,820,412 |
| Current Ratio | 1.6/1 | 2.2/1 |

Corporate Directory



Directors

Edward Abrams*
Lorne Abrams
Kenneth T. Boddy
Allen Karp*
Gerald Kroll, Q.C.
Frank Rodaro*
Peter G. Weeks

Officers

Edward Abrams,
Chairman of the Board
and Chief Executive Officer
Lorne Abrams,
President
Kenneth T. Boddy,
Executive Vice President
Peter G. Weeks,
Vice President Operations
Gerald Kroll, Q.C.,
Secretary
Gary W. Davis, C.G.A.,
Treasurer and Controller

*Audit Committee

Transfer Agent and Registrar
The Canada Trust Company

Auditors
Wm. Eisenberg & Co.
Chartered Accountants

Listed
Toronto Stock Exchange (RJL)

Head Office and Manufacturing Centre
1100 Birchmount Road
Scarborough, Ontario M1K 5E5

Annual Meeting
December 14, 1976
V.I.P. Room, The Sheraton Centre
Toronto, Canada, 10:30 a.m.

The year ended June 30, 1976 is a most significant one in your company's history and represents a period of notable achievement.

Amid many uncertainties in our industry and the economy, Rembrandt accomplished production growth, consolidated its operations into a new manufacturing centre, underwent a major corporate reorganization, and successfully withstood the adverse effects of the continuing downward spiral of world gold prices on the dollar volume of sales, profit margins and inventory valuation.

Consolidated sales for the fiscal year ended were \$10,388,040 compared with \$10,600,836 for the previous year. While the dollar volume of sales declined slightly, the unit volume increased. This seeming paradox is the result of the industry practice of fixing the selling price of gold jewellery based on gold prices at the time of sale.

With a continually shrinking price base during the year, not only were total sales dollars reduced from the previous year, but gross profit margins were constantly being eroded.

Sales were also effected by the postal strike in the fall of 1975, which reduced normally busy pre-Christmas distribution to towns and smaller cities across Canada.

Earnings declined to 57 cents per share from \$1.37 the previous year, representing a return on investment after taxes of 15 per cent. Declining gold prices, our new building and increased operating costs, were the major factors in reduced earnings. During the year under review, world gold prices fell from approximately \$174 an ounce at the beginning of the fiscal year to approximately \$123 an ounce by fiscal year end.

In view of the recent upheavals in the jewellery manufacturing industry, a conservative approach has been taken to inventory valuation.

The other major factors in reduced earnings were construction and carrying costs of our new manufacturing and head office centre at 1100 Birchmount Road, Scarborough along with associated relocation and amalgamation expenses. While it was necessary to carry this facility for about a year while being completed and readied for occupancy, the new building adds substantially to the assets of your company and many associated costs are one-time expenses. Our spacious new base of operations is important to our future growth.

Your new building provides a production environment second-to-none in jewellery manufacturing and allows us to combine our operations formerly spread over four locations. The centralization which took place during the fourth quarter was handled efficiently with a minimum of disruption to production and sales. Employees are also deriving many benefits and satisfaction from their new surroundings resulting in improved quality and volume of production.

The increased production capacity reflects Rembrandt's growing market penetration and product diversification. Your company increased its distribution network in the United States where sales have grown substantially over the previous year.

Our new manufacturing centre is completely geared to meet our growing markets. Production equipment has been installed to handle greater output more efficiently. The plant layout further improves work flow, inventory control and efficient handling of work in process. Employee satisfaction played a role in all our considerations.

We are also pleased to note the successful introduction of our patented Jewel-Set press, which allows retailers to set birthstones in rings of our exclusive manufacture. Rembrandt holds Commonwealth rights on this process.

The ever-growing line of more than 4,000 charms was also expanded and included a popular "Jimmy Who?" charm and numerous Bicentennial charms, requested by our U.S. customers.

In cooperation with the Federal Government your company played host to trade missions from Japan and United Kingdom. Exports to these countries are expected to improve substantially as a result.

In the Canadian market, while Olympic jewellery fell short of expectations, sales of all other products increased to distributors who represent Rembrandt to more than 90 per cent of Canada's jewellers.

As part of our centralization program, your company also reorganized its corporate structure. Kenneth T. Boddy, former President of The Electric Chain Company of Canada Limited, was named Executive Vice President of the new operating company, Rembrandt Jewelry Manufacturing Limited, and Peter G. Weeks was appointed Vice

President of Operations. The additional responsibilities recognize the important contribution these members of the management team are making to our operations.

The consolidation also combines administrative and accounting functions and allows for more extensive use of Rembrandt's computer facilities. All these factors are expected to provide many cost benefits to your company.

Our Chemical Milling process, which we have successfully applied to precious metal, also allows us to expand into fields other than jewellery. We plan to develop further our Chemical Milling operation after its relocation to our new facilities, expected before the end of 1976. Chemical Milling permits us to manufacture jewellery and other products that would not be possible by conventional jewellery processes.

Three former facilities used by the company have been vacated. The company-owned Progress Avenue plant and former head office was taken over in the fourth quarter by a major U.S. manufacturer of X-ray equipment for a 10-year period at considerable benefit to your company. The leased premises on 39 Estate Drive in Scarborough were vacated with no further obligation and the Bathurst Street building, formerly occupied by Electric Chain, has been sold since the year end.

In continuing efforts to minimize the effects of price fluctuations of gold, your management is concentrating on increasing the inventory turnover rate to reduce the time between purchase of raw materials and the sale of manufactured goods.

Your Board also wishes to note the resignation during the year of Mr. Lawrence S. Solway and gratefully recognizes his contribution as a director. A warm welcome is extended to Mr. Frank Rodaro, a noted Toronto businessman, who has joined your Board.

In addition, your Board extends appreciation for the support of shareholders, employees, suppliers, distributors and retailers who individually contributed to the achievement of this milestone year.

In retrospect, the year ended has shown that Rembrandt has the depth of people with proven capability to meet the challenge of turmoil in the industry, a slumping gold market, corporate centralization and reorganization as well as increased operating costs, yet still attain results in which we can all take pride.

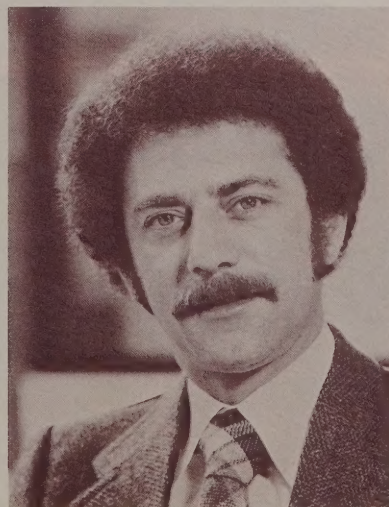
Looking ahead, the expanded production capacity of our new manufacturing and administrative centre gives us the support to expand our customer base and product lines further and face the future with optimism and enthusiasm.



Edward Abrams
Chairman of the Board
and Chief Executive Officer

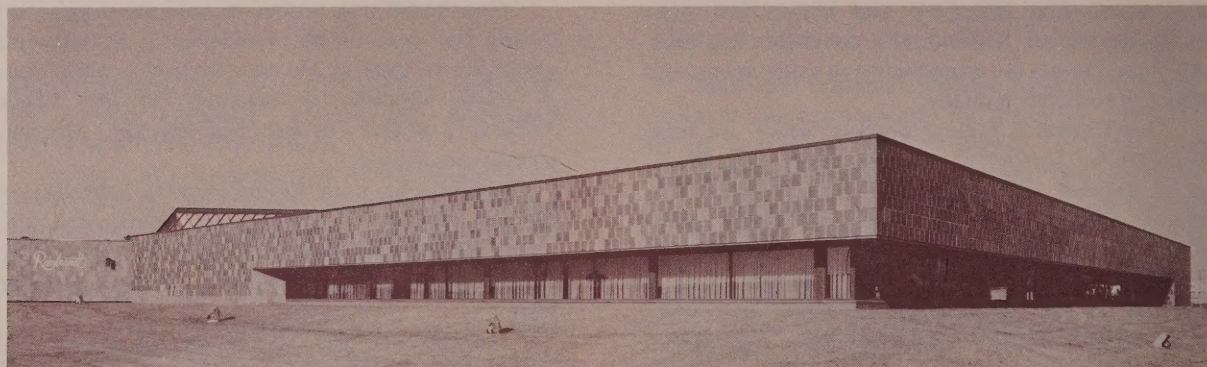
A stylized, handwritten signature of Edward Abrams.

Toronto
November 9, 1976



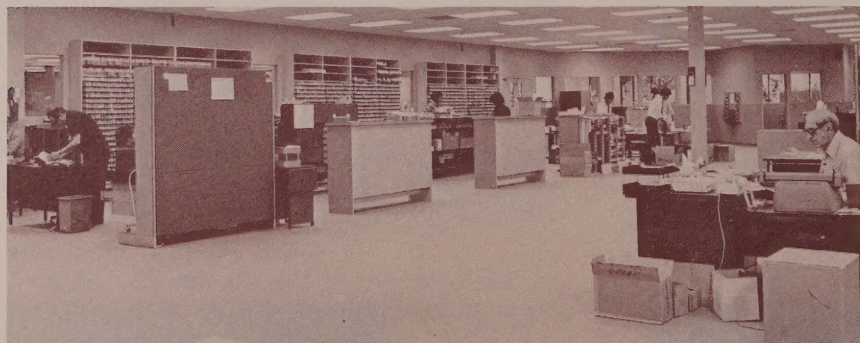
Lorne Abrams
President

A stylized, handwritten signature of Lorne Abrams.



Rembrandt's new administration and manufacturing centre in Scarborough, Ontario is second-to-none in the industry. The efficient production facilities centralized the company's

operations, formerly spread over four locations in Metropolitan Toronto and provides nearly 108,000 square feet of space.



Rembrandt's inventory control system at its new Scarborough facilities was developed by the company to speed distribution of its more than 4,000 precious metal charms, rings and chain jewellery to many countries around the world.



The bright and colorful new production atmosphere was designed to enhance employee satisfaction and productivity.

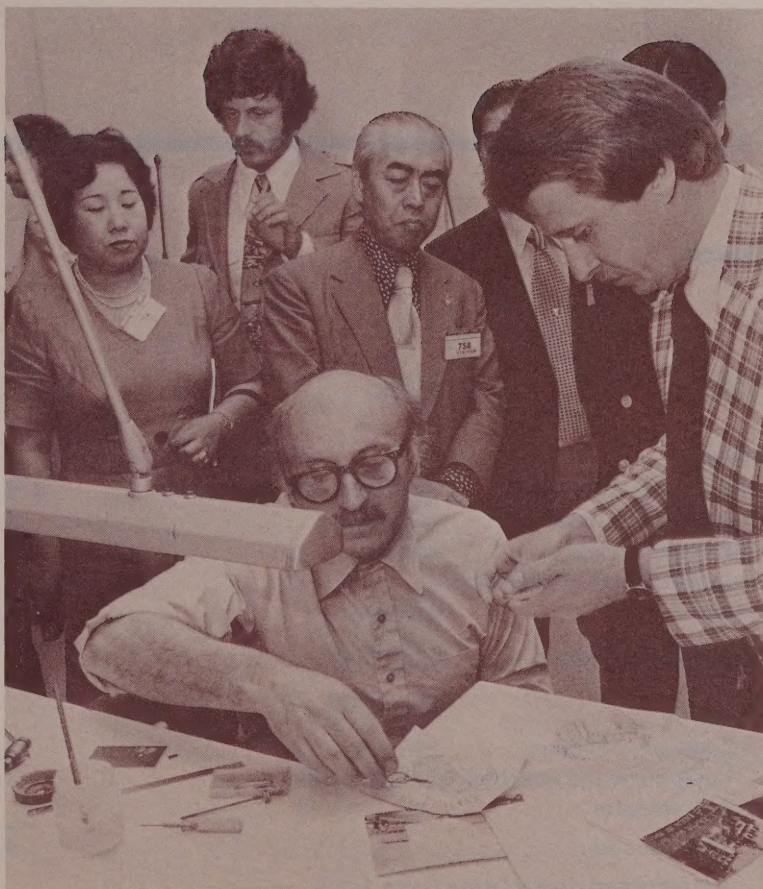


Kenneth T. Boddy, former President of the Rembrandt subsidiary, The Electric Chain Company of Canada Limited, was appointed Executive Vice President of Rembrandt's new operating company when Electric Chain operations were relocated to the new manufacturing centre.

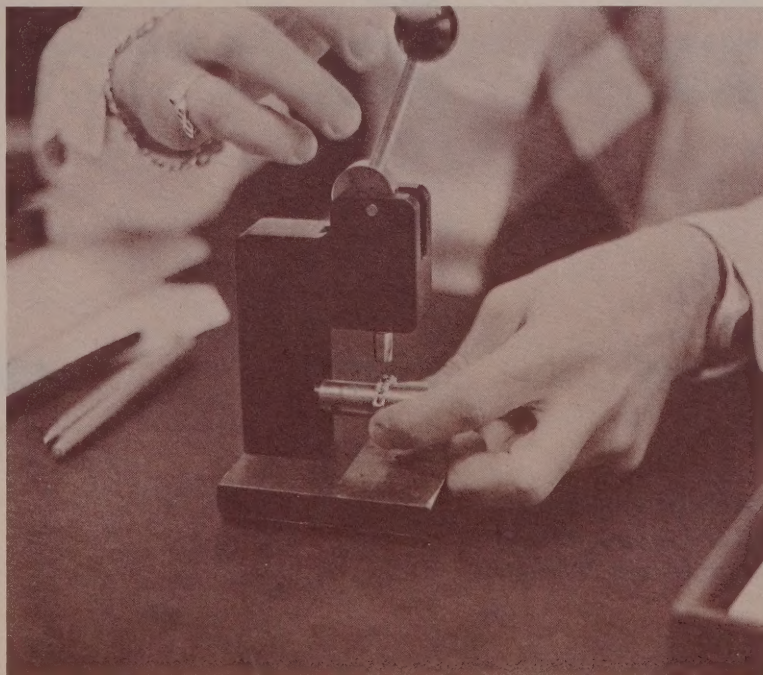


Centralization of operations also combined administration and accounting functions, and provides for more extensive use of Rembrandt's computer facilities. Treasurer and Controller Gary Davis (above) projects that these factors will produce many cost benefits for Rembrandt.

Rembrandt successfully introduced its Jewel-Set press in early 1976. The press allows retail jewellers to set birthstones on their premises. The rings are exclusively manufactured by Rembrandt and the company holds Commonwealth patent rights on the press.



Peter Weeks, Vice President Operations, explains how charms are designed to a large Japanese trade mission that visited the company's new manufacturing centre during the year. This is just one of the many ways Rembrandt promotes its many products with potential buyers.





Assets

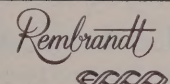
| | <u>1976</u> | <u>1975</u> |
|--|---------------------|--------------------|
| Current | | |
| Accounts receivable | \$ 2,225,180 | \$2,398,900 |
| Inventories (note 1b) | 4,085,528 | 4,576,336 |
| Prepaid expenses | 45,903 | 67,428 |
| Income taxes refundable | 356,200 | — |
| | <u>6,712,811</u> | <u>7,042,664</u> |
| Deferred Receivable | <u>—</u> | <u>30,000</u> |
| Fixed | | |
| Land and buildings | 3,106,381 | 1,489,622 |
| Equipment and leasehold improvements | 1,682,214 | 1,024,947 |
| Automobiles | 62,173 | 50,742 |
| Total, at cost | <u>4,850,768</u> | <u>2,565,311</u> |
| Accumulated depreciation (note 1c) | <u>721,561</u> | <u>613,106</u> |
| | <u>4,129,207</u> | <u>1,952,205</u> |
| | <u>\$10,842,018</u> | <u>\$9,024,869</u> |

On behalf of the Board
Edward Abrams, Director
Lorne Abrams, Director

The accompanying notes are an in

Balance Sheet

0, 1976



Liabilities

| | <u>1976</u> | <u>1975</u> |
|--|------------------|------------------|
| Current | | |
| Bank indebtedness (note 3) | \$ 508,836 | \$ 360,860 |
| Banker's acceptances (note 3) | 2,200,000 | 1,600,000 |
| Accounts payable and accrued charges | 542,086 | 727,468 |
| Income taxes payable | — | 183,246 |
| Current portion of long term debt (note 4) | 849,006 | 350,678 |
| | <u>4,099,928</u> | <u>3,222,252</u> |
| Long Term Debt (note 4) | <u>2,064,236</u> | <u>1,813,749</u> |
| Deferred Income Taxes (note 1d) | <u>296,223</u> | <u>184,002</u> |

Shareholders' Equity

Capital Stock (note 5)

| | | |
|--|------------------|------------------|
| Authorized | | |
| 2,000,000 Common shares, without par value | | |
| Issued | | |
| 1,006,550 Common shares | 50,262 | 50,262 |
| Retained Earnings | <u>4,331,369</u> | <u>3,754,604</u> |
| | <u>4,381,631</u> | <u>3,804,866</u> |

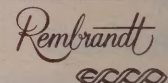
\$10,842,018\$9,024,869

REMBRANDT JEWELRY LIMITED

AND ITS SUBSIDIARIES

Consolidated Statement of Earnings

for the year ended June 30, 1976



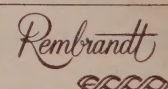
| | 1976 | 1975 |
|---|-------------------|---------------------|
| Sales | \$10,388,040 | \$10,600,836 |
| Expenses | | |
| Cost of sales and expenses | 8,746,233 | 7,688,513 |
| Depreciation (note 1c) | 117,425 | 76,231 |
| Interest on long term debt (note 4) | 255,849 | 101,734 |
| Interest on short term debt | 270,079 | 344,532 |
| | <u>9,389,586</u> | <u>8,211,010</u> |
| Earnings before taxes | 998,454 | 2,389,826 |
| Income taxes | 421,689 | 1,010,852 |
| Net Earnings for year | <u>\$ 576,765</u> | <u>\$ 1,378,974</u> |
| Earnings per common share (note 6) | <u>\$0.573</u> | <u>\$1.37</u> |

REMBRANDT JEWELRY LIMITED

AND ITS SUBSIDIARIES

Consolidated Statement of Retained Earnings

for the year ended June 30, 1976



| | 1976 | 1975 |
|----------------------------------|--------------------|--------------------|
| Balance, beginning of year | \$3,754,604 | \$2,375,630 |
| Net earnings for year | <u>576,765</u> | <u>1,378,974</u> |
| Balance, end of year | <u>\$4,331,369</u> | <u>\$3,754,604</u> |

The accompanying notes are an integral part of these financial statements.

REMBRANDT JEWELRY LIMITED

AND ITS SUBSIDIARIES

Consolidated Statement of Changes in Financial Position

for the year ended June 30, 1976



| | 1976 | 1975 |
|---|-----------------------------|---------------------------|
| Sources of working capital | | |
| Operations | | |
| Net earnings for year | \$ 576,765 | \$1,378,974 |
| Charges to operations not involving working capital | | |
| Depreciation | 117,425 | 76,231 |
| Deferred income taxes | 112,221 | 53,271 |
| Working capital provided from operations | 806,411 | 1,508,476 |
| Increase in long term indebtedness | 250,487 | 586,937 |
| Proceeds from deferred receivable | 30,000 | 30,000 |
| Proceeds from sale of capital stock | — | 6,612 |
| | <u>1,086,898</u> | <u>2,132,025</u> |
| Uses of working capital | | |
| Purchase of fixed assets (net) | 2,294,427 | 1,186,085 |
| Repayment of promissory notes | — | 50,678 |
| | <u>2,294,427</u> | <u>1,236,763</u> |
| Increase (decrease) in working capital | (1,207,529) | 895,262 |
| Working capital, beginning of year | 3,820,412 | 2,925,150 |
| Working capital, end of year | <u>\$2,612,883</u> | <u>\$3,820,412</u> |
| Components of increase (decrease) in working capital | | |
| Increase (decrease) in current assets | | |
| Accounts receivable | (\$ 173,720) | (\$ 880,759) |
| Income taxes refundable | 356,200 | — |
| Inventories | (490,808) | 1,064,618 |
| Prepaid expenses | (21,525) | 25,523 |
| | <u>(329,853)</u> | <u>209,382</u> |
| Decrease (increase) in current liabilities | | |
| Bank indebtedness | (147,976) | 952,177 |
| Bankers' acceptances | (600,000) | (400,000) |
| Accounts payable | 185,382 | (124,308) |
| Income taxes | 183,246 | 277,693 |
| Current portion of long term debt | (498,328) | (19,682) |
| | <u>(877,676)</u> | <u>685,880</u> |
| Increase (decrease) in working capital | <u>(\$1,207,529)</u> | <u>\$ 895,262</u> |

The accompanying notes are an integral part of these financial statements.

REMBRANDT JEWELRY LIMITED

AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

as at June 30, 1976



1. Accounting Policies

a. Consolidation

These consolidated financial statements include the accounts of the following wholly-owned subsidiaries:

The Electric Chain Company of Canada Limited
Ecco Jewellery Sales Limited
Rembrandt Jewelry Manufacturing Limited (note 2)

All significant intercompany loans and transactions have been eliminated on consolidation.

b. Inventories

Inventories, except gold raw material, are valued at the lower of cost (first-in, first-out basis) and net realizable value. Because of the wide fluctuation in price the company has valued its gold raw material at replacement cost subsequent to the year end which was lower than historical cost and year end values.

| <u>Classification</u> | <u>1976</u> | <u>1975</u> |
|---|--------------------|--------------------|
| Raw materials and work-in-process | \$2,091,530 | \$2,576,244 |
| Finished goods | 1,778,335 | 1,847,693 |
| Supplies on hand | 215,663 | 152,399 |
| | <u>\$4,085,528</u> | <u>\$4,576,336</u> |

c. Depreciation

The corporation calculates depreciation and amortization to write off the cost of fixed assets over their estimated useful life, as follows:

| | |
|------------------------------|--------------------|
| Buildings | 2½% Straight line |
| Equipment | 10% Straight line |
| Automobiles | 30% Residual value |
| Leasehold improvements | 10% Straight line |

d. Deferred income taxes

Deferred income taxes arise from claiming, for income tax purposes, capital cost allowances in excess of depreciation recorded in the books.

2. Transfer of Net Assets

Effective January 1, 1976, Rembrandt Jewelry Manufacturing Limited assumed the trading operations and acquired the assets and assumed the liabilities of Rembrandt Jewelry Limited and The Electric Chain Company of Canada Limited.

This transfer was for the purpose of merging the operations of both companies when they moved to the new plant and was accomplished on a tax free roll-over basis.

3. Bank Indebtedness and Bankers' Acceptances

The bank indebtedness and bankers' acceptances are secured by the assignment of accounts receivable and inventory and by a demand debenture consisting of a first specific charge on real estate and a floating charge on all other assets.

4. Long Term Debt

| | <u>1976</u> | <u>1975</u> |
|---|--------------------|--------------------|
| U.S. Dollar bank loans (foreign exchange risk covered by forward exchange contract securing repayment value) secured by a general assignment of book debts, interest at 1½% over the 180 day London inter-bank Euro Dollar offer rate | | |
| — Due October 1977..... | \$ 589,140 | \$ 867,255 |
| — Due April 1978..... | 1,359,590 | — |
| Bankers' acceptances, repayable \$300,000 annually (note 3)..... | 900,000 | 1,200,000 |
| Promissory notes to shareholders, 9%, unsecured, repayable in equal semi-annual instalments, due January 2, 1978 | 64,512 | 97,172 |
| | <u>2,913,242</u> | <u>2,164,427</u> |
| Due within one year | (849,006) | (350,678) |
| | <u>\$2,064,236</u> | <u>\$1,813,749</u> |

5. Capital Stock Options

| Option price and date of grant | | Balance June 30, 1975 | Exercised | Issued (Cancelled) | Balance June 30, 1976 |
|--------------------------------|-------------------|-----------------------------|-----------|-----------------------|-----------------------------|
| \$5.75 | April 2, 1973 | 22,500 | — | (1,850) | 20,650 |
| \$7.425 | July 1, 1973 | 4,000 | — | (4,000) | — |
| \$6.25 | May 8, 1974 | 7,200 | — | (700) | 6,500 |
| \$5.85 | August 26, 1975 | — | — | 2,500 | 2,500 |
| \$5.75 | November 14, 1975 | — | — | 4,000 | 4,000 |
| | | <u>33,700</u> | <u>—</u> | <u>(50)</u> | <u>33,650</u> |

Note: Options are valid for a period of five years from the date granted.

6. Earnings per common share

The dilution of earnings assuming the exercise of options (note 5) and after imputing average bank loan interest of 10.75% net of income taxes on the proceeds, would have been less than one cent per common share in the current year.

7. Remuneration of Directors and Senior Officers

The aggregate direct remuneration paid or payable by the company and its subsidiaries to the directors and senior officers of the company during the current year amounted to \$175,000 (1975 — \$149,000).

8. Subsequent Event

Subsequent to the year end, the company disposed of its land and building at 86 Bathurst Street, Toronto for \$295,000 which was in excess of net book value.



Auditors' Report

To the shareholders,
Rembrandt Jewelry Limited

We have examined the consolidated balance sheet of Rembrandt Jewelry Limited and its subsidiaries as at June 30, 1976, and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

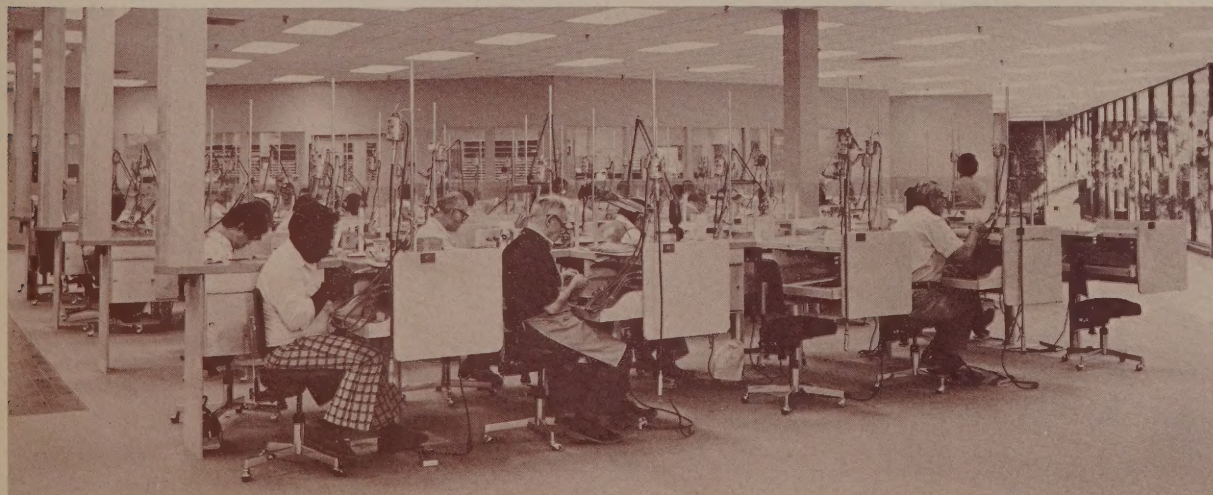
In our opinion, these consolidated financial statements present fairly the financial position of the companies as at June 30, 1976, and the results of their operations and changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

WM. EISENBERG & CO.
Chartered Accountants

Toronto, Canada,
September 24, 1976.



Rembrandt's display room at its new headquarters offers buyers an opportunity to view Rembrandt's complete array of precious metal charms, rings and chain jewellery in a simulated retail environment. Here, Sales Manager Walter Gabian holds a display card that features a Neck-Name pendant, another successful Rembrandt product.



Interior view of new manufacturing centre.

